

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ARA-10 EUR-12 EA-10 NEA-10 ISO-00 FEA-01

ERDA-07 AID-05 CEA-01 CIAE-00 CIEP-02 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-03 USIA-15 SAM-01 OES-05 SP-02 SS-15 STR-04

TRSE-00 FRB-01 PA-02 PRS-01 /145 W

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P R 141650Z JUL 75

FM AMEMBASSY QUITO

TO SECSTATE WASHDC PRIORITY 6318

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMCONSUL GUAYAQUIL

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LIMA

AMEMBASSY SANTIAGO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 QUITO 5074

E.O. 11652: N/A

TAGS: EFIN, ENRG, EC

SUBJECT: LOCAL COMMENTARY ON ECUADOR'S OIL POLICY

1. FOLLOWING IS COMPLETE TEXT OF EMBASSY TRANSLATION OF
ARTICLE ON ECUADOR'S OIL POLICY WHICH APPEARED ON FRONT PAGE
OF QUITO'S LEADING DAILY EL COMERCIO JULY 11. ARTICLE, DATE-
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LINED GUAYAQUIL AND BASED ON REMARKS ATTRIBUTED TO "AN ECUA-

DOREAN BUSINESSMAN" PASSING THROUGH THAT CITY, IS SHARPLY CRITICAL OF PAST GOVERNMENT PRICING AND PRODUCTION POLICIES AS WELL AS OF ECUADOR'S MEMBERSHIP IN OPEC.

2. BEGIN TEXT: GUAYAQUIL--AN ECUADOREAN BUSINESSMAN WHO IS PASSING THROUGH THIS CITY IN CONNECTION WITH HIS BUSINESS ACTIVITIES ABROAD MADE THE FOLLOWING STATEMENTS:

3. "THE HASTY AND ILL-TIMED ENTRANCE OF ECUADOR INTO THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES (OPEC), TOGETHER WITH OTHER ILL-ADVISED MEASURES ADOPTED IN CONNECTION WITH EXPLORATION AND EXPLOITATION OF THE PETROLEUM DEPOSITS IN THE EASTERN REGION OF ECUADOR, HAS RESULTED IN THE PRESENT CONFUSION IN THE CONDUCT OF THE PETROLEUM POLICY AND, THEREFORE, IN THE ECONOMIC CRISIS THAT THIS COUNTRY IS GOING THROUGH. THIS IS THE IMPRESSION OF ECUADOR NOW PREVAILING ABROAD AND WHICH IS FULLY CONFIRMED WHEN ONE VISITS THIS COUNTRY."

4. "TO THE INITIAL MISTAKES MADE DURING THE PAST FIVE YEARS SHOULD BE ADDED AN ILL-ADVISED AND UNREALISTIC PETROLEUM POLICY ADOPTED BY THE GOVERNMENT IN THE PAST THREE YEARS. THE FAILURES AND ECONOMIC PHENOMENA NOW OCCURRING IN THIS COUNTRY ARE NOT DUE SOLELY TO THE WORLD INFLATION, BUT ALSO TO AN UNREALISTIC ECONOMIC POLICY LACKING IN FORESIGHT, WHICH HAS PREVENTED A FOUR- OR FIVEFOLD INCREASE IN THE PETROLEUM REVENUES. THIS IS TRUE IF WE CONSIDER THE WORLD-WIDE INCREASES IN THE PRICES OF THIS PRODUCT, AND CONSEQUENTLY IN THIS COUNTRY SINCE THE END OF 1973, WHEN THE PRODUCTION VOLUME WAS SET AT 250,000 BARRELS PER DAY AND THE PRICE FOR CRUDE WAS THEN A LITTLE OVER 2.50 DOLLARS PER BARREL

5. "WHAT HAS HAPPENED? SIMPLY THAT A SLOW AND GRADUAL DISINFLATION PROCESS HAS SET IN. THOSE ILL-ADVISED AND DEMAGOGIC MEASURES ADOPTED AT THE BEGINNING OF PETROLEUM EXPLORATION AND EXPLOITATION HAVE STOPPED BOTH TYPES OF ACTIVITY. IMPORTANT OIL COMPANIES THAT KNEW THAT THERE WAS PETROLEUM IN THE EASTERN REGION OF ECUADOR, ON ENCOUNTERING HINDRANCES AND UNJUSTIFIED DIFFICULTIES IN CARRYING ON THEIR ACTIVITIES, CHOSE TO LOSE MILLIONS OF DOLLARS INVESTED IN THEIR EXPLORATION WORK AND WENT TO A NEIGHBORING COUNTRY

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IN SEARCH OF BETTER UNDERSTANDING.

6. "ALL THIS HAS HAPPENED IN SPITE OF THE FACT THAT ECUADOR HAS A CLEAR AND REASONABLE HYDROCARBON LAW, ACCEPTED AS SUCH IN FOREIGN BUSINESS CIRCLES. HOWEVER, ITS ERRONEOUS APPLICATION HAS DESTROYED THE PRINCIPLES OF THE LAW ITSELF AND HAS LED THE COUNTRY TO FACE THE PRESENT NEGATIVE RESULTS, IN SPITE OF THE OFFICIAL PROPAGANDA TO THE EFFECT THAT OUR

MINERAL RICHNESS WAS BEING DEFENDED. ACTUALLY, THEY WERE DECEIVING THE PEOPLE AND DECEIVING THEMSELVES, TO SUCH AN EXTENT THAT THIS HAS CREATED A PROFOUND FEELING OF FRUSTRATION AMONG THE ECUADOREAN PEOPLE, WHO WERE PINNING HIGH HOPES ON THE PETROLEUM RICHES.

7. "ALL OF THIS HAS HAD A TREMENDOUS IMPACT ON THE TRADE BALANCE, WHICH HAS DECREASED BY 40 PERCENT, PARTICULARLY OWING TO THE PETROLEUM EXPORTS' BEING SUSPENDED."

8. THE PERSON WHO MADE THE STATEMENTS WE HAVE QUOTED RECALLED THAT THE DAILY EL COMERCIO ANTICIPATED AND WARNED ABOUT WHAT IS NOW HAPPENING JUST WHEN PETROLEUM EXPLORATION AND EXPLOITATION WERE BEGINNING. THAT DISPLEASED THE GOVERNMENT AND IN PARTICULAR THOSE OFFICIALS WHO WERE MORE DIRECTLY CONNECTED WITH THE PETROLEUM POLICY AND WHO, IN SPITE OF THEIR IGNORANCE OF THE REAL SITUATION, BOASTED OF BEING KNOWLEDGEABLE. HE ALSO RECALLED THAT THE PERTINENT REMARKS MADE BY EL COMERCIO, IN WHICH THE DISASTER WAS ANTICIPATED, WERE BRANDED AS ANTIPATRIOTIC. HE WENT ON TO SAY THAT "THOSE REMARKS, MADE IN GOOD FAITH, WERE NOT HEEDDED AND THE PETROLEUM POLICY FELL INTO THE INEXPERT HANDS OF CONCEITED PERSONS WHO BOASTED OF THEIR WORTH AND KNOWLEDGE, A BOGUS KNOWLEDGE WHICH ONLY SERVED TO DISGUISE A PERSEVERING APPLICATION OF IDEOLOGICAL INSTRUCTIONS WHICH HAVE NO RELEVANCE TO THE POLITICAL AND SOCIAL SITUATION OF ECUADOR".

9. HE RECALLED THAT THE RATE OF PRODUCTION IN 1972, WHEN EXPORTS BEGAN, WAS SET AT 250,000 BARRELS PER DAY, AND THIS RATE, UNDER A DECREE OF APRIL, 1974, WAS REDUCED TO 210,000 BARRELS PER DAY. HE ADDED THAT THE PETROLEUM EXPORTS AT NO TIME REACHED THE MAXIMUM AVERAGE VOLUME WHICH REGULATES PRODUCTION, AND HE POINTED TO THE FOLLOWING UNCLASSIFIED

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DAILY EXPORTS STATISTICS:

1972 164,410 BARRELS
1973 197,570 BARRELS

10. IN 1974, WHEN THE EXPORTATION RATE WAS REDUCED UNDER A DECREE TO 210,000 BARRELS PER DAY, 164,530 BARRELS PER DAY WERE EXPORTED; AND, IN THE FIRST SIX MONTHS OF 1975, 119,250 BARRELS WERE EXPORTED DAILY.

11. "THESE FIGURES", HE ADDED, "NEED NO COMMENT AND OVERWHELMINGLY PROVE THE FACT THAT, THANKS TO ECUADOR'S UNSOUND PETROLEUM POLICY, PRODUCTION AND EXPORTATION AND, THEREFORE, THE REVENUES THEREFROM, UNDERWENT A SUBSTANTIAL REDUCTION RESULTING IN A SERIOUS IMPACT ON THE ECUADOREAN ECONOMY.

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ACTION EB-07

INFO OCT-01 AF-06 ARA-10 EUR-12 EA-10 NEA-10 ISO-00 FEA-01

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PM-03 USIA-15 SAM-01 OES-05 SP-02 SS-15 STR-04

TRSE-00 FRB-01 PA-02 PRS-01 /145 W

----- 051511

P R 141650Z JUL 75

FM AMEMBASSY QUITO

TO SECSTATE WASHDC PRIORITY 6319

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMCONSUL GUAYAQUIL

AMEMBASSY JAKARTA

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USMISSION OECD PARIS

UNCLAS SECTION 2 OF 2 QUITO 5074

E.O. 11652: N/A

TAGS: EFIN, ENRG, EC

SUBJECT: LOCAL COMMENTARY ON ECUADOR'S OIL POLICY

12. PETROLEUM CIRCLES ABROAD ARE AWARE OF THE FACT THAT
THERE IS A CONSIDERABLE RESERVE OF PETROLEUM IN ECUADOR;
HOWEVER, A LACK OF EXPERIENCE AND A MISTAKEN NATIONALIST

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FEELING IN CERTAIN GOVERNMENT CIRCLES FRIGHTENED AWAY THOSE COMPANIES THAT WERE WILLING TO NEGOTIATE AND WHOSE ACTIVITIES COULD HAVE BEEN PROPERLY CONTROLLED THROUGH A CORRECT AND REALISTIC APPLICATION OF THE HYDROCARBON LAW. THE OUTCOME, WITH WHICH WE ARE ALL FAMILIAR, WAS THE SUSPENSION OF PETROLEUM EXPLORATION. HAD IT BEEN CONTINUED, IT WOULD HAVE MADE IT POSSIBLE TO DETERMINE THE ACTUAL RESERVES, WHICH ARE CERTAINLY LARGER THAN THOSE KNOWN TO EXIST AT PRESENT.

13. "IN 1972 AND EARLY 1973, WHEN ECUADOREAN PETROLEUM ACTIVITY WAS AT ITS PEAK, IT WAS ANTICIPATED, ON THE BASIS OF SOUND ESTIMATES, THAT BY THE END OF 1975 THE DAILY RATE OF PETROLEUM PRODUCTION WOULD GO UP TO 400,000 BARRELS, AND THE TRANS-ANDEAN PIPELINE WAS BUILT WITH AN INITIAL CAPACITY FOR TRANSPORTATION OF 250,000 BARRELS PER DAY. LATER, WITH CERTAIN MODIFICATIONS, IT WAS TO BE ADAPTED TO CARRY 400,000 BARRELS PER DAY AT ITS MAXIMUM CAPACITY. AT THAT TIME IT WAS ANTICIPATED THAT BY THE END OF 1976 IT WOULD BE NECESSARY TO BUILD ANOTHER PIPELINE RUNNING PARALLEL TO THE OTHER, BECAUSE, IF EXPLORATION OF THE BIG SOURCES IN THE EASTERN REGION WAS CONTINUED, IT WAS ESTIMATED THAT PRODUCTION WOULD REACH 1 MILLION BARRELS PER DAY BY THE END OF 1977.

14. "IN SPITE OF THE FACT THAT THE FOREIGN COMPANIES ABANDONED THEIR WORK AND GAVE UP EVERY TYPE OF NEGOTIATION OR UNDERSTANDING WITH THE ECUADOREAN AUTHORITIES, WE MUST CONSIDER THAT, IN ANY CASE, THE POSSIBILITIES CONTINUE TO BE THE SAME. UNFORTUNATELY, IT HAS NOT BEEN POSSIBLE, AT PRESENT, TO MAINTAIN THE SAME PACE OF ACTIVITY IN EXPLORATION AND EXPLOITATION OF PETROLEUM IN THE EASTERN REGION BECAUSE THE ECUADOREAN STATE PETROLEUM CORPORATION (CEPE) DOES NOT COMMAND, BY ITSELF, NEITHER THE LARGE CAPITAL NOR THE CAPACITY NOR THE EXPERTISE REQUIRED FOR THIS PURPOSE.

15. "THERE IS A LACK OF CONFIDENCE ABROAD IN THE ECUADOREAN PETROLEUM POLICY BECAUSE OF THE NEGATIVE RESULTS IT HAS BROUGHT TO THE COUNTRY. SO REAL IS THIS DISTRUST THAT IT WAS PROVED ONCE AGAIN WHEN MEMBERS OF OPEC REFUSED TO EXTEND A LOAN WHICH ECUADOR HAD REQUESTED. AT LEAST THIS IS WHAT IS REPORTED IN THE PRESS, AND THESE REPORTS HAVE NOT

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BEEN OFFICIALLY DENIED OR CORRECTED.

16. "NOBODY CAN SAY, BECAUSE OF WHAT HAS HAPPENED SO FAR, THAT PETROLEUM DEPOSITS HAVE BEEN EXHAUSTED IN ECUADOR. NOR, BY ANY MEANS, CAN THE FAILURE BE CALLED COMPLETE. THERE IS PETROLEUM IN THE ECUADOREAN EASTERN REGIONAL AND THERE IS GAS IN THE GULF OF GUAYAQUIL, AND THESE RICHES AWAIT EXPLORATION. NO COMPANY SUCH AS ADA WOULD HAVE INVESTED 26 MILLION DOLLARS TO THEM TURN AROUND AND ABRUPTLY ABANDON EXPLORATION OF LARGE AND PROMISING DEPOSITS ON THE GROUNDS THAT THERE WAS NO GAS. NO, THE REASONS WERE QUITE DIFFERENT.

17. "THE ECUADOREAN PEOPLE MUST NOT GIVE UP HOPE. IT IS ENTITLED TO DEMAND THAT ITS HOPE SHOULD BE FULFILLED AND THAT IT NOT BE FRUSTRATED BECAUSE OF THE UNSOUND, THOUGHTLESS AND NAIVE ECONOMIC POLICIES PREVAILING IN THIS COUNTRY. IT IS NECESSARY TO CORRECT WHAT IS DEFECTIVE IN ORDER THAT THIS COUNTRY MAY CONTINUE ITS PROCESS OF DEVELOPMENT, PARTICULARLY FOR THE BENEFIT OF THE LARGE MAJORITY OF THE PEOPLE.

18. "THE LOWERING OF THE PRICES OF PETROLEUM FOR EXPORT IS A SOUND IF TARDY MEASURE. IT IS CONSISTENT WITH THE CURRENT INTERNATIONAL PETROLEUM MARKET. THIS OPINION IS ALSO HELD OUTSIDE ECUADOR. I RECALL THAT THE VENEZUELAN PETROLEUM MINISTER SAID THAT IT WAS STRANGE THAT ECUADOR SHOULD NOT HAVE ADOPTED THIS MEASURE EARLIER.

19. BECAUSE OF THE LOWERING OF THE PRICE OF CRUDE OIL, ECUADOR SHOULD BE ABLE TO MAINTAIN A VOLUME OF EXPORTS CONSISTENT WITH THE REALITY OF INTERNATIONAL MARKET CONDITIONS, BEARING IN MIND THAT TO COMPENSATE FOR LOWERING THE PRICE, WE SHOULD INCREASE THE PRESENT VOLUME OF PRODUCTION."
END TEXT.
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